

**DEPARTMENT OF FOOD AND AGRICULTURE**

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**William (Bill) J. Lyons, Jr., Secretary**



July 5, 2002

Michael Marsh, C.P.A.  
Chief Executive Officer  
Western United Dairymen  
1315 K Street  
Modesto, CA 95354-0917

Dear Mr. Marsh:

This letter is in response to the petition submitted by Western United Dairymen on June 21, 2002, proposing amendments to the Class 4a and 4b pricing formulas.

The Department has carefully reviewed the petition along with its proposed amendments and has decided not to grant a hearing at this time.

CDFA staff participated in considerable discussion concerning the Class 4a and 4b formulas with members of the Dairy Advisory Committee (DAC) including Western United Dairymen representatives at the May 30 DAC meeting. Clearly, there was significant disagreement among DAC members on whether CDFA should prepare another manufacturing cost energy update at that time. Subsequent to the DAC meeting, the Department has not become aware of any significant and prolonged decreases in energy costs incurred by California dairy processors since the November hearing that would warrant another special update of energy costs for the most recently completed set of cost studies.

The Department prefers to use the period of the next several months to direct our auditors to complete the normal updating of all dairy processing costs. We expect to complete these studies this fall. Immediately after completion of the all-cost updates, we intend for CDFA auditors to perform a special survey of the most recent month's dairy processing plant energy costs. The Department will prepare an adjusted exhibit using the updated energy costs applied to all cost studies that will help indicate if a hearing is needed to review Class 4a and 4b manufacturing cost allowances.

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We are also hopeful that USDA's review of changes to Class III and Class IV pricing formulas will soon be complete for federal milk marketing orders. It would be preferable to have the formula details of USDA's Final Rule for these competing classes before we again consider changes to California's Class 4 pricing formulas. Also, Dairy Marketing Branch staff will have completed additional analysis on Class 4a yield and transportation factors by this fall.

We look forward to continued dialogue with Western United Dairymen and other interested parties as the various studies and projects progress.

Sincerely,

Tad Bell  
Undersecretary